DOMINION FOUNDRIES AND STEEL, LIMITED

ANNUAL REPORT 1971

DOMINION FOUNDRIES AND STEEL, LIMITED

Highlights

	1971	1970	Increase (Decrease)
Production of ingots and castings — net tons*	2,468	2,322	6.3%
Sales*	$380,723	$331,658	14.8%
Net income*	$ 28,019	$ 33,102	(15.4)%
Net income — per common share	$ 1.74	$ 2.07	
Net income — percent of sales	7.4%	10.0%	
Net income — percent of average shareholders' equity	9.3%	11.6%	
Dividends declared — total*	$ 15,039	$ 14,632	2.8%
Dividends declared — per common share	$ .90	$ .87½	2.9%
— per preferred share	$ 4.75	$ 4.75	—
Capital expenditures — manufacturing*	$ 52,029	$ 69,873	(25.5)%
Expenditures on mining properties*	$ 32,916	$ 2,735	1,103.5%
Depreciation*	$ 28,764	$ 26,246	9.6%
Average number of employees	9,300	8,600	8.1%
Number of holders of common shares	17,958	19,511	(8.0)%

*In thousands.

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On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The Annual General Meeting of Shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 28, 1972 at 12:00 o'clock noon.

Directors

Officers

HONORARY DIRECTOR

Frederick W. Sherman
Loudonville, N.Y.

DIRECTORS

Harry N. Bawden
Director, Dominion Securities Corporation Limited, Toronto

George H. Blumenauer
Chairman and President, Otis Elevator Company Limited, Hamilton

R. Ross Craig
Executive Vice President — Commercial

Dr. John R. Evans
Vice President, Health Sciences, McMaster University, Hamilton

Daniel F. Hassel
Vice President — Industrial Relations

William C. Hassel
Vice President — Operations

Howard J. Lang
Chairman and President, Canron Limited, Montreal

John D. Leitch
President, Upper Lakes Shipping Ltd., Toronto

James L. Lewtas, Q.C.
Partner, Campbell, Godfrey & Lewtas, Toronto

W. Harold Rea
Chairman, Great Canadian Oil Sands Limited, Toronto

John G. Sheppard
Executive Vice President — Financial

Frank H. Sherman
President and Chief Executive Officer

OFFICERS

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President — Commercial

John G. Sheppard
Executive Vice President — Financial

Daniel F. Hassel
Vice President — Industrial Relations

David O. Davis
Vice President — Engineering

David A. Lindsey
Vice President — Raw Materials, Purchases and Traffic

William C. Hassel
Vice President — Operations

F. John McMulkin
Vice President — Research

William J. Stewart
Vice President — Product Quality and Electrical Steels

Richard G. Storms
Vice President — Manufacturing Controls

Jack Plumpton
Comptroller

Thomas Van Zuiden
Treasurer

Dorothy M. Cauley
Secretary

Alan D. Laing
Assistant Comptroller

H. Graham Wilson
Assistant Secretary

R. Ross Craig *Frank H. Sherman* *John G. Sheppard*

A Message from the President

In mid-1971, the major new production units in our current expansion program were completed and put into operation. We are well pleased with the performance of all units. They will create a significant increase in our annual capacity for smelting iron ore, producing steel ingots, and rolling these ingots into hot-rolled products. We expect to increase our output from the 2.3 million-ingot-ton level in 1970 to 2.7 million tons in 1972, and to 3.0 million tons in subsequent years. Our capacity in the finishing departments was increased with the addition of another cold rolling mill late in 1971, and was extended with a third tinning line in March, 1972.

This additional capacity will increase our profit potential two ways: with increased sales as the market grows and the elimination of purchased semi-finished steels which result in low profit margins.

It is disappointing to report lower net earnings in a year that had record production and sales. The principal causes of the earnings' reduction were higher costs, lower mine income, and equipment failures resulting in delays in bringing major capital projects on stream. These factors are dealt with in detail in the following pages.

Increased earnings must come primarily from two major sources: the restoration of adequate profit margins by having uncontrollable cost increases recovered in selling prices, and increased volume of sales and production.

We are continuing our program to reduce costs by improving quality and operating efficiencies. The Company's product quality program was expanded with the development of the "Quality Monitor System". The system provides a faster, more accurate feedback on basic steel quality and our problem-solving ability has been increased.

We are constantly examining the potential of new products and new uses for steel. Several projects are currently in the final stages of development.

Bellwood Heights, Dofasco's experimental townhouse condominium development, is just being completed. The purpose of this project is to examine the feasibility of factory-manufactured housing using steel as the major component. The costs of this project have exceeded estimates and a study is under way to determine the economics of a full-scale housing development.

In October of 1971, a prototype coach for a new high-speed intercity passenger train was tested on main line runs. The train, designated LRC (light, rapid, comfortable), is a joint venture of Dofasco, MLW-Worthington and Alcan. Preliminary tests are encouraging and, if successful, Dofasco will increase its sales by supplying the truck assemblies for the new trains.

We plan to participate in the expanding pipeline industry through our ownership interest in International Portable Pipe Mills Ltd. of Calgary. The new company is in the final stages of developing its unique new project which makes possible the manufacture of pipe on pipeline rights-of-way throughout the world. Consider-

able interest has been indicated in this patented process.

Government involvement in the activities of Canadian business has continued to increase dramatically. During 1971, Dofasco has made representations, and in some cases, we have written and presented briefs in respect of the proposed Competition Act and changes affecting tax reform, profit sharing, unemployment insurance, labour standards and corporation law. We are pleased to note that in the recent Speech from the Throne, the Government stated, with respect to the proposed Competition Act, it "will place before Parliament a revised policy reflecting the informed and constructive comments received and assistance gained".

This has of necessity involved considerable time on the part of many senior business people at a time when business and government effort would be better spent on helping to create the type of domestic and export environment that would provide a healthy economy and increased employment.

At Dofasco, we have recognized and will continue to face up to our great responsibilities to our shareholders, our employees, and the community. We are as committed today to the principles of profit sharing as we were when our profit sharing plan began in 1938. We have also recently adopted a supplementary income retirement plan.

Our medical centre, we believe, is one of the best equipped in the country. Three full-time staff physicians administer annual physicals to all employees with the emphasis on preventative medicine. The centre also provides special services to employees including physical fitness, alcohol and drug rehabilitation programs, as well as hearing conservation. Many employees are participating in a study of the causes and prevention of heart disease. The joint study is being administered by our medical centre and the McMaster University Medical Centre.

Other employee services provided by Dofasco include comprehensive employee benefits, tuition assistance, as well as supervisory and apprenticeship training programs.

We will continue our support of educational and philanthropic activities. These include scholarships, medical programs, youth projects, and a broad range of cultural, social and community programs.

Dofasco's substantial activities in the vital area of environmental control are dealt with in another section of the report.

To encourage further community involvement, we have introduced a policy for those employees who wish to stand for election to the House of Commons, a Provincial Legislative Assembly or a municipal office. The policy provides for a leave of absence with pay for varying periods of time depending upon the elective office sought by the candidate. If elected, the employee may continue on leave, without pay, while in office. This policy has drawn favourable comment from senior government officials.

Overcapacity in world steel markets and a strong domestic demand were major factors causing an increase of approximately 48% in imports of foreign steel into Canada during 1971 over 1970.

Many steel industries throughout the world often operate as an instrument of national policy. Whether or not costs are covered is secondary to maintaining employment or economic goals such as the balance of payments position. As a result, some countries have found it necessary to impose quotas for protection of their own steel industries. The Canadian steel industry operates in an open market. As a consequence, it is particularly vulnerable to the dumping of foreign steel in the domestic market.

We expect an expanding domestic market, coupled with our increased capacity, to improve profits in 1972.

On behalf of the Board of Directors, I would like to express our appreciation to all employees for their dedication during 1971 and to our shareholders for their continued support.

Hamilton, Ontario
March 28, 1972

F. H. Sherman
President

The Year in Review

OPERATING RESULTS

Capacity operations and a new production level of nearly 2.5 million ingot tons enabled Dofasco to attain record sales of $381 million during 1971. This represents a 15% increase over 1970 and a continuation of the growth that has seen the Company's sales revenues more than double in the last decade. Despite records in both production and sales, net income showed a decrease of 15% to $28 million.

Half of the increases in sales experienced during the year were derived from National Steel Car and Dofasco's foundry. Margins of profit from these sources are lower than on steel mill products.

Contributions to net income from Dofasco's iron ore mine interests declined substantially. This was due primarily to the ending of the three-year income tax free period at the Sherman Mine on June 1st, 1971. In addition, as was expected, the Adams Mine, purchased by the Company in July, had high costs for the last five months of the year due to the 1971 stripping program and major maintenance undertaken late in the year.

During 1971, many major capital installations were brought on stream. Most of the new installations came into production after mid-year and the revenues derived from them did not fully offset the increased depreciation charges and the costs of financing them. It should be noted that the major units were six to eight months behind schedule. This delay was caused by strikes in the construction industry in 1969.

Delays in bringing certain facilities on stream required the purchase of some higher cost semi-processed steel to meet increased sales commitments. This reduced profit margins on the finished products. We expect the facilities completed during 1971 will relieve this tight demand situation in the future.

Increased selling prices for all major product lines were insufficient to offset higher costs of materials, wages, services and developmental costs of new projects. The new projects referred to in the President's message are all in the development stage and, therefore, have as yet produced no revenue.

FINANCIAL CONDITION AND CAPITAL STRUCTURE

Working capital increased during 1971 by nearly $17 million. The change was brought about principally by the issue of $50 million in debentures.

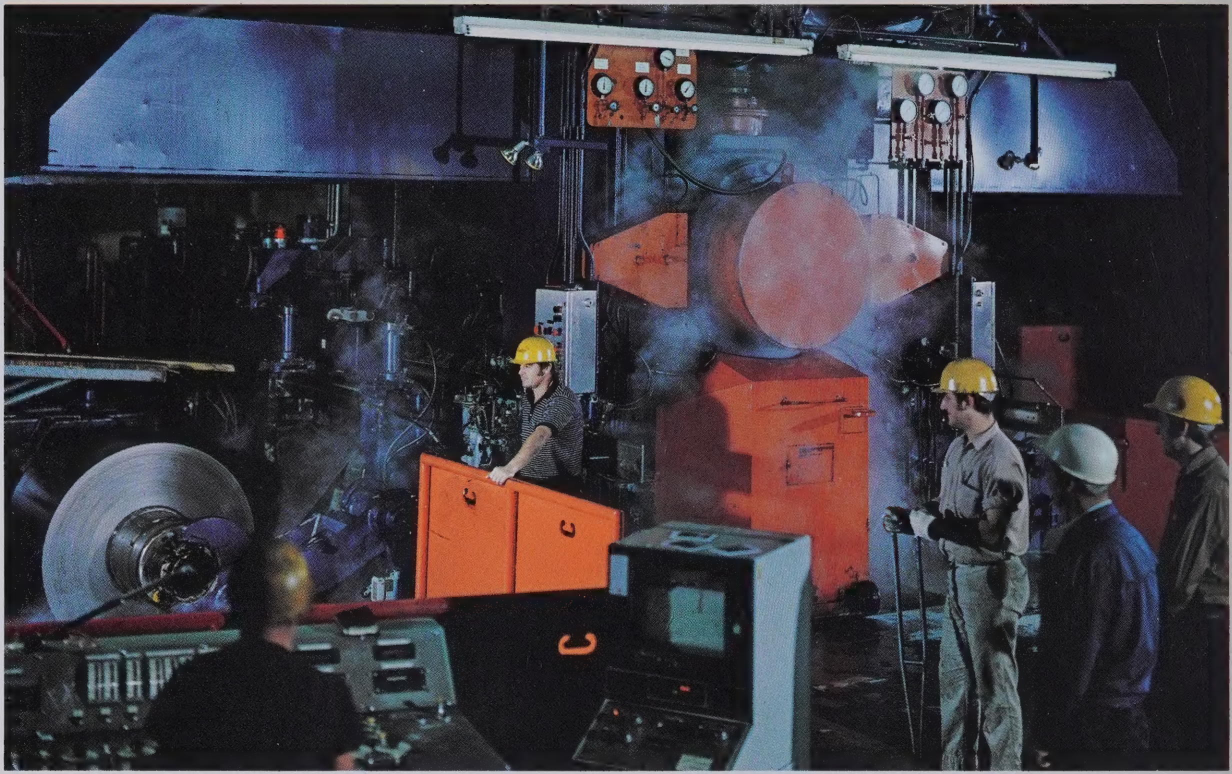
During 1971, revisions in the Company's revolving Canadian bank credit were negotiated, increasing the amount available from $35 million to $50 million. The term was also extended. The U.S. revolving bank credit was reduced from $35 million to $20 million. At year end, no indebtedness was outstanding in respect of these credits.

At the end of the year, $33 million was outstanding in short-term notes payable. This method of financing was used instead of revolving bank credit because of the lower cost of borrowing in the short-term money market.

Details of the factors affecting the financial condition and capital structure are set out on page 13 and in note 3 of the financial statements.

Dividends per common share declared during 1971 were 90¢. This compares to 87½¢ in the previous year. Quarterly dividends are currently at 22½¢ per common share. Preferred dividends declared in 1971 were at the rate of $4.75 per share.

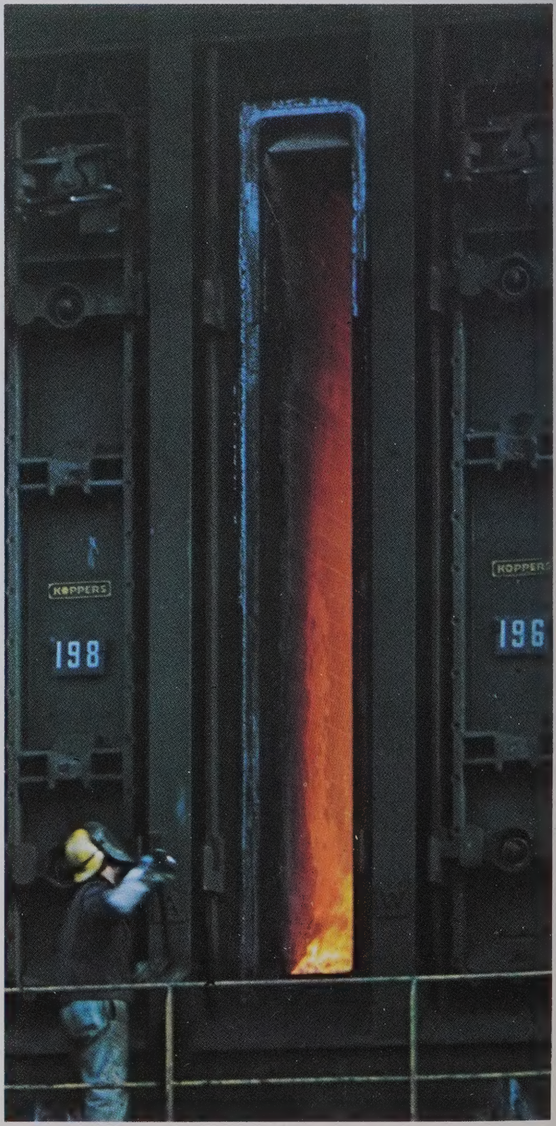
A time-exposed photograph shows Dofasco's 2-hi reversing hot roughing mill in operation. The new mill, together with auxiliary facilities, will provide Dofasco with an ultimate increase of 30% in hot rolling capacity.



During 1971, a no. 5-56″ cold mill went into operation in Dofasco's electrical steels division. The new mill will improve the Company's flexibility in meeting increased customer demand for high-grade electrical steels.

A fifth battery of coke ovens was completed to supply Dofasco's new fourth blast furnace. The new ovens represent a 34% increase in coke-making capacity.

Storage bins automatically feed raw materials into hoppers for precise weighing before being fed into the Company's basic oxygen furnaces. This equipment is part of Dofasco's new flux system for more efficient handling and accurate measurement of some of the materials used in the steelmaking process.



CAPITAL EXPENDITURES AND MANUFACTURING

During 1971, capital expenditures on mining and manufacturing exceeded any previous year in the Company's history, totalling $85 million. Thirty-one million dollars of this amount was for the acquisition of the Adams Mine. Expenditures on manufacturing facilities in 1972 are estimated to be $35 million.

The start-up in March, 1971 of the Company's computer-controlled no. 4 blast furnace was a major step. The installation represents an increase in overall iron-making capacity of 60%. To supply the furnace, Dofasco completed a fifth battery of coke ovens, including facilities for the collection and treatment of waste gases created in the coking process. The new ovens represent a 34% increase in coke-making capacity.

In the steelmaking division, a flux system went into operation for more efficient handling and accurate measurement of materials. A new pouring floor and improved furnace charging equipment has increased steelmaking capacity by more than 20%.

Another major project which came on stream during 1971 was a 2-hi reversing hot roughing mill. This mill, together with its auxiliary facilities, will provide an ultimate hot rolling capacity of 3 million ingot tons per year. This would represent a 30% increase in hot rolling capacity.

Cold rolling facilities were increased by 10% during 1971 with the addition of the no. 5-56" cold mill in the electrical steels division. The new mill, together with the installation of high-temperature annealing bases by mid-1972, will improve Dofasco's capacity to meet increased customer demand for high-grade electrical steels.

The start-up of a third electrolytic tinning line in March of 1972 doubled tin plate capacity. This dual-purpose line is capable of rapid conversion for the manufacture of chrome-coated steel. This added capacity places the Company in a good position to meet market demands for tin and chrome-coated products.

RAW MATERIALS

Maintaining adequate sources for raw materials is of vital concern to the Company. To assure Dofasco of an ample supply of iron ore pellets, the Company purchased the Adams Mine at Kirkland Lake, Ontario in July of last year.

This acquisition, together with ownership interests in the Sherman Mine and Wabush Mines, should provide Dofasco with its total iron ore pellet requirements from company-owned Canadian sources until about 1980. Some of the pellet production from the new mine will be sold for several years to Jones and Laughlin, the former owners.

Based on the present annual mine production levels, we estimate that the presently proven ore reserves are sufficient to enable production to continue at the Adams Mine for 22 years, Sherman for 27 years, and Wabush for 64 years. Our share of the output from these mines is 3,200,000 gross tons per year.

Dofasco's annual coal requirements are approximately 1.8 million net tons. About 70% of these requirements is provided either from long-term contracts or from a property in which Dofasco has an ownership interest. A 20-year agreement was recently negotiated with Eastern Associated Coal Corp. to supply the Company with 500,000 net tons of coal annually. The agreement provides for a loan of $5½ million from Dofasco to Eastern payable over the next 18 months and is repayable over the term of the contract based on shipments. This is in addition to our current long-term contract with this company which provides Dofasco with approximately 550,000 net tons of coal annually.

Another principal source of coal is through the Company's ownership interest in the Itmann Coal Company of West Virginia. Our annual purchases from this mine normally total in excess of 250,000 net tons. At the present production rate, Dofasco's share of reserves is estimated to be 20 years.

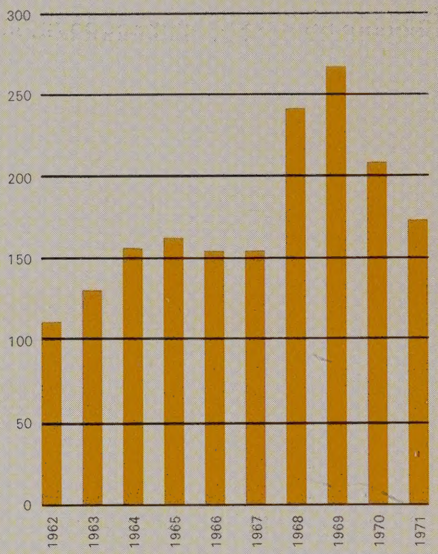
Dofasco has recently negotiated an option with Imperial Metals and Power Limited of Vancouver to examine and develop, if it proves feasible, the lodestone iron and certain coal properties of Imperial Metals in British Columbia.

THE ENVIRONMENT

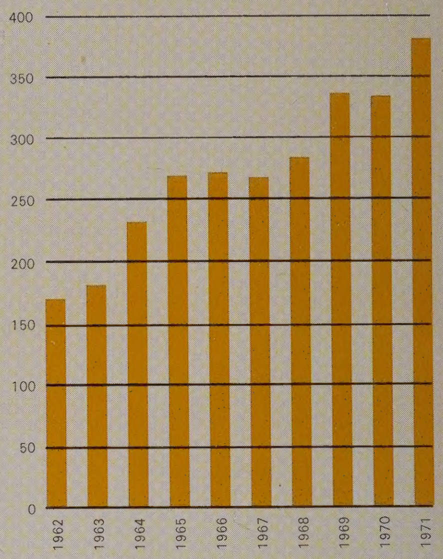
In the spring of 1969, Dofasco publicly announced the beginning of a six-year environmental control program and committed itself to the elimination of its pollution problems. Over the past three years, Dofasco has confirmed this commitment with several major environmental control installations currently in operation and many others scheduled to be completed in the next three years.

(continued on page 16)

NET INCOME
(CENTS PER COMMON SHARE)

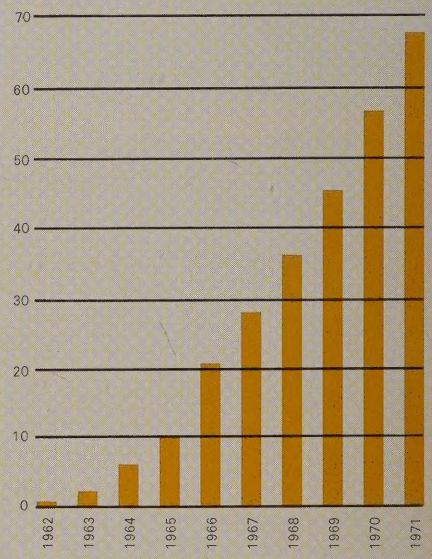


ANNUAL SALES
(IN MILLIONS OF DOLLARS)



INGOTS AND CASTING PRODUCTION
(IN MILLIONS OF NET TONS)

PERCENTAGE CHANGE IN AVERAGE HOURLY EMPLOYMENT COSTS
COMPARED TO 1961
(BASE YEAR)



AUDITORS' REPORT

To the Shareholders of Dominion Foundries and Steel, Limited:

We have examined the consolidated balance sheet of Dominion Foundries and Steel, Limited as at December 31, 1971 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 24, 1972

CLARKSON, GORDON & Co.
Chartered Accountants.

DOMINION FOUNDRIES AND STEEL, LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970—in thousands of dollars)

		1971		1970
INCOME				
Sales		$380,723		$331,658
Cost of sales (excluding the following items)	$295,011		$247,988	
Depreciation	28,764		26,246	
Allotted for employees' profit sharing	5,429		5,623	
Interest on long term debt (less discount on purchase of debentures)	8,245	337,449	3,977	283,834
Income from operations		43,274		47,824
Income from investments (including associated companies; 1971—$660; 1970—$445)		1,145		1,578
Income before income taxes		44,419		49,402
Income taxes		16,400		16,300
Net income for year		$ 28,019		$ 33,102
Net income per common share (after preferred dividends)		$1.74		$2.07
RETAINED EARNINGS				
Balance at beginning of year		$218,919		$200,389
Add:				
Net income for year	$ 28,019		$ 33,102	
Discount on preferred shares purchased for cancellation	80	28,099	60	33,162
		247,018		233,551
Deduct dividends declared:				
Preferred shares	1,061		1,082	
Common shares (1971—90¢; 1970—87½¢)	13,978	15,039	13,550	14,632
Balance at end of year		$231,979		$218,919

See accompanying notes to consolidated financial statements

DOMINION FOUNDRIES AND STEEL, LIMITED

(INCORPORATED UNDER THE LAWS OF CANADA)

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1971

(with comparative figures at December 31, 1970—in thousands of dollars)

	1971	1970
ASSETS		
Current:		
Cash	$ 8,519	$ 8,619
Investment in short term securities at cost and accrued interest (approximating market value)	512	10
Accounts receivable	46,565	45,286
Inventories (note 1)	97,948	80,090
Prepaid income taxes	2,380	3,994
Total current assets	155,924	137,999
Fixed (note 2):		
Land, buildings and equipment at cost	702,283	618,838
Less accumulated depreciation	263,805	236,215
	438,478	382,623
Other:		
Investment in associated companies at cost (approximating underlying equity)	5,599	5,564
Unamortized debenture issue expenses	700	—
Sundry assets	1,835	1,937
	8,134	7,501
	$602,536	$528,123

On behalf of the Board:
H. N. Bawden, Director
F. H. Sherman, Director

	1971	1970
LIABILITIES		
Current:		
Accounts payable and accrued charges	$ 48,818	$ 47,557
Amounts payable for employees' profit sharing	5,429	5,623
Taxes payable	2,342	1,932
Dividends payable	3,763	3,756
Current requirements on long term debt (note 3)	76	380
Total current liabilities	60,428	59,248
Long Term Debt (note 3)	130,705	80,530
Deferred Income Taxes	104,200	94,750
Shareholders' Equity:		
Preferred shares (note 4)	22,303	22,663
Common shares (note 5)	52,921	52,013
Retained earnings	231,979	218,919
Total shareholders' equity	307,203	293,595
	$602,536	$528,123

See accompanying notes to consolidated financial statements

(1) Inventories

	1971	1970
Materials and supplies	$ 47,722,000	$ 39,160,000
Work in process and finished products	50,226,000	40,930,000
	$ 97,948,000	$ 80,090,000

Inventories are valued at the lower of average cost and realizable value.

(2) Fixed assets

	1971	1970
Manufacturing facilities and equipment at cost	$573,401,000	$522,010,000
Iron ore projects at cost	128,882,000	96,828,000
	702,283,000	618,838,000
Less accumulated depreciation	263,805,000	236,215,000
	$438,478,000	$382,623,000

The unexpended portion of authorized capital projects at December 31, 1971 amounted to approximately $40,000,000. In addition the Company has planned further environmental control expenditures amounting to $22,000,000.

(3) Long term debt

	1971	1970
4⅜% debentures maturing 1971	$ —	$ 380,000
6⅜% debentures maturing 1974	10,076,000	10,393,000
6½% debentures maturing 1987	32,305,000	33,737,000
9% debentures maturing 1991	50,000,000	—
9% notes payable maturing 1974	5,400,000	5,400,000
Short term notes payable (see below)	33,000,000	6,000,000
Revolving bank credit bearing interest at prevailing rates	—	25,000,000
Outstanding at December 31	130,781,000	80,910,000
Less current requirements	76,000	380,000
	$130,705,000	$ 80,530,000

Sinking fund requirements and debenture and long term note maturities during the next five years are as follows:
1972 — $76,000; 1973 — $1,000,000; 1974 — $15,275,000; 1975 — $1,190,000; 1976 — $2,890,000.

Revolving bank credit (none of which is being used at December 31, 1971) is available to the Company as follows:

(a) $50,000,000 Canadian credit, convertible at annual intervals to September 27, 1974 into a five-year term loan bearing interest at ½ of 1% in excess of the prime commercial rate.

(b) $20,000,000 U.S. credit, terminating December 31, 1976.

As one of the terms of borrowing in the short term money market, the Company has agreed not to use revolving bank credit to the extent of the total amount of short term notes outstanding. As the revolving bank credit is available to replace the short term notes, these notes have been classified as long term debt not maturing within five years. The 1970 figures have been reclassified to conform with this presentation.

(4) Preferred shares

Authorized — 500,000 preferred shares of the par value of $100 each, issuable in series.

Issued — 250,000 4¾% cumulative preferred shares, series A, redeemable at the Company's option at a premium of $3 to June 1, 1973 and reduced amounts thereafter, of which 223,025 shares are outstanding (1970 — 226,625).

To December 31, 1971, 26,975 shares have been purchased for cancellation (including 3,600 shares during 1971 for $280,000) as a result of which the Company has met its obligations to that date with respect to the purchase fund requirements. In compliance with Section 61 of the Canada Corporations Act, retained earnings of $2,698,000 are designated as capital surplus.

(5) Common shares

Authorized — 25,000,000 common shares of no par value.
Issued and outstanding — 15,545,984 shares (1970 — 15,496,752).

A plan was adopted in 1964 authorizing employee stock options extending to April 1974 and covering a maximum of 480,000 common shares. The number of common shares covered by each option varies with changes in the optionee's remuneration and therefore cannot now be determined. However, on the assumption that 1971 remuneration of the optionees will continue at the same rate until the earlier of December 31, 1972 and their respective retirement dates, there were outstanding as at December 31, 1971 the following options to purchase an aggregate of 195,546 common shares:

Option price per share	Held by: Directors and officers	Held by: Other employees
$18	90,334	75,685
18⅝		2,352
20⅜		6,732
20½		2,396
21¼		4,928
21⅜		6,586
22⅞		1,736
25		4,797

To December 31, 1971, 192,788 common shares have been issued under this plan (including 49,232 shares issued during 1971 for cash, $908,000).

The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, has been omitted as the effect is immaterial.

(6) Retirement plans

The companies have funded retirement plans covering substantially all of their employees. Costs charged against income in the year include amounts for current and past service.

The estimated unfunded past service costs, not included in the accompanying financial statements at December 31, 1971 were $7,200,000 and these will be paid and charged against income over periods not exceeding eighteen years.

(7) Statutory information

Expenses for 1971 include remuneration of directors and officers as follows:

(a) fees of twelve directors	$ 36,000
(b) remuneration of thirteen officers (including five directors)	778,000
Total remuneration of directors and officers	$814,000

The above includes a total of $1,650 received as directors' fees from the wholly-owned subsidiary, National Steel Car Corporation, Limited.

No statement is made of the proportions in which sales are divided among the businesses carried on by the Company and its subsidiaries since there is pending a court application for an order that no such statement is necessary.

DOMINION FOUNDRIES AND STEEL, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970—in thousands of dollars)

	1971	1970
SOURCE OF FUNDS:		
Operations		
Net income for year	$28,019	$33,102
Depreciation	28,764	26,246
Deferred income taxes	9,450	1,000
Funds from operations	66,233	60,348
Common shares issued for cash	908	325
Increase in long term debt:		
Proceeds from debenture issue (net)	49,300	—
Increase in short term notes payable (note 3)	27,000	6,000
Increase in bank indebtedness	—	25,000
Other changes (net)	67	32
	143,508	91,705
APPLICATION OF FUNDS:		
New facilities and equipment		
Manufacturing	52,029	69,873
Iron ore projects	32,590	3,122
Reduction in long term debt—bank indebtedness	25,000	—
—debentures and notes payable	1,825	8,570
Preferred shares purchased for cancellation (less discount)	280	149
Dividends to shareholders	15,039	14,632
	126,763	96,346
INCREASE (REDUCTION) IN WORKING CAPITAL	16,745	(4,641)
WORKING CAPITAL AT BEGINNING OF YEAR	78,751	83,392
WORKING CAPITAL AT END OF YEAR	$95,496	$78,751

See accompanying notes to consolidated financial statements

TEN YEAR SUMMARY OF PRODUCTION AND FINANCIAL DATA

	1971	1970	1969
Production of ingots and castings — net tons*	2,468	2,322	2,279
Sales*	$380,723	$331,658	$332,610
Depreciation*	$ 28,764	$ 26,246	$ 26,387
Net income*	$ 28,019	$ 33,102	$ 41,991
Net income per common share	$ 1.74	$ 2.07	$ 2.64
Net income — percent of sales	7.4%	10.0%	12.6%
Dividends declared — per common share	$ .90	$ .87½	$ .80
— per preferred share	$ 4.75	$ 4.75	$ 4.75
Total dividends declared*	$ 15,039	$ 14,632	$ 13,457
Income reinvested in the business*	$ 12,980	$ 18,470	$ 28,534
Working capital*	$ 95,496	$ 78,751	$ 83,392
Capital expenditures — manufacturing*	$ 52,029	$ 69,873	$ 43,016
Expenditures on mining properties*	$ 32,916	$ 2,735	$ 3,915
Cash flow*†	$ 66,233	$ 60,348	$ 60,872
Cash flow per common share	$ 4.26	$ 3.89	$ 3.93
Long term debt*	$130,705	$ 80,530	$ 58,100
Average number of employees	9,300	8,600	8,600
Number of holders of common shares	17,958	19,511	20,183
Percentage of shares held in Canada	95.7%	95.0%	94.2%

*in thousands.

†Cash flow — net income plus depreciation and deferred income taxes in the year.

1968	1967	1966	1965	1964	1963	1962
2,180	1,879	1,877	1,785	1,584	1,391	1,243
$280,128	$265,083	$271,086	$268,347	$229,194	$177,314	$167,502
$ 24,570	$ 20,465	$ 17,504	$ 14,548	$ 13,114	$ 11,821	$ 10,956
$ 38,374	$ 24,566	$ 24,557	$ 25,609	$ 23,457	$ 19,741	$ 16,557
$ 2.41	$ 1.52	$ 1.52	$ 1.61	$ 1.53	$ 1.29	$ 1.09
13.7%	9.3%	9.1%	9.5%	10.2%	11.1%	9.9%
$ .70	$ .60	$ .60	$ .57½	$ .48¾	$ .41¼	$ .40
$ 4.75	$ 4.75	$ 4.75	$ 3.17	—	—	$ 1.50½
$ 11,931	$ 10,416	$ 10,425	$ 9,635	$ 7,485	$ 6,302	$ 6,025
$ 26,443	$ 14,150	$ 14,132	$ 15,974	$ 15,972	$ 13,439	$ 10,532
$ 91,510	$ 79,337	$ 69,949	$ 76,767	$ 52,769	$ 38,368	$ 36,168
$ 18,449	$ 22,748	$ 56,906	$ 38,244	$ 37,691	$ 18,114	$ 16,923
$ 3,499	$ 23,320	$ 27,494	$ 6,816	$ 15,969	$ 7,775	$ 10,351
$ 62,583	$ 57,972	$ 61,073	$ 59,217	$ 50,228	$ 35,862	$ 31,013
$ 4.05	$ 3.76	$ 3.97	$ 3.85	$ 3.27	$ 2.35	$ 2.11
$ 68,624	$ 86,881	$ 79,436	$ 52,444	$ 55,953	$ 35,156	$ 37,406
7,800	8,100	8,400	8,600	7,600	5,900	5,900
20,444	19,696	19,805	18,818	15,924	13,060	13,381
93.7%	92.7%	90.5%	90.0%	90.1%	90.6%	90.3%

Environmental control has become an important integral part of the operating costs and capital expenditures of the Company. New manufacturing facilities are equipped with the best available environmental control devices and this equipment must be maintained as part of the operating cost of the installation.

During 1971, maintenance costs alone on environmental control installations amounted to just over $2½ million including the premium paid for the higher cost of low sulphur oil. This type of oil is now used to reduce the sulphur content of gas emitted from the hot mill soaking pit operations.

Capital expenditures on new installations for environmental control reached close to $10 million. These capital expenditures are part of the Company's six-year pollution abatement program which is scheduled to be completed by the end of 1975.

One of the major projects completed during 1971 was the expansion of existing coke oven by-product facilities where coke oven gases are cleaned and distributed for use elsewhere in plant operations. Other major equipment included a larry car scrubber to reduce black smoke emissions during coke oven loading, electrostatic precipitators for removal of scarfer fumes in the hot mill and a sand dust collection system to eliminate particulate matter exhausted from Dofasco's foundry.

Part of the Company's overall environmental control program includes a $17 million complex. The first stage of this project went into trial operation in February, 1972. The installation, for the clarifying of all hot mill cooling waters, has the capacity to meet the requirements of our expanded facilities in the hot mill. Other equipment to complete the complex will include a hydrochloric acid regeneration plant and cold mill water treatment facilities. These are scheduled for completion in 1972 and 1973.

Estimates of the maintenance costs for operating Dofasco's environmental control equipment approximate 10% of the capital cost. When the six-year program is completed, it is expected that these costs will amount to between $6 million and $7 million per year.

A unique overhead crane carries a customer's order to a waiting truck in Dofasco's new central shipping building. Here, tin mill and cold mill sheet and coil products are stored on rows of shelves seven levels high. A computer records the location of all products for rapid loading and delivery to the customer.

Outlook

RESEARCH

Work was carried out on a technique for optimizing continuous control of pellet quality at the Sherman and Adams mines. This resulted in the installation of a neutron activator analyzer which is the first installation of its kind to be used for this process.

A new program for controlling iron and steelmaking processes was launched during the year, with particular emphasis being placed on faster analysis of process and product results using a computerized x-ray defraction method of analysis. The development of an improved galvanized steel white rust preventative coating progressed to the engineering stage for application to the Company's no. 1 galvanizing line.

To meet the more sophisticated demands on steel quality, our work on improving flat-rolled steel properties has been stepped up, especially in the area of fatigue and drawability.

The department has also expanded its research contract with the Ontario Research Foundation for monitoring the effectiveness of Dofasco's pollution abatement installations.

OUTLOOK

Prospects for steady growth in Canadian steel sales during 1972 are promising. By the end of 1971, a fairly solid consumer growth had been established. This sector should continue to be the principal source of economic expansion for

Trial operations of Dofasco's hot mill water filtration plant began in February, 1972. The plant is designed to clarify 20,000 gallons of hot mill cooling waters per minute. This capacity is sufficient to meet the requirements of recently expanded facilities in the hot mill.

Bright, serviceable Dofasco Precoat Steel highlights the exterior of the Company's Bellwood Heights experimental town-house condominium development. The project was developed over a period of two years by Dofasco's product development department. A study is presently under way to determine the economics of a full-scale housing development.

An enclosed conveyor transports finished pellets to a storage silo at the Company's newly acquired Adams Mine. The mine, together with other ownership interests, will provide Dofasco with its total iron ore pellet requirements from company-owned, Canadian sources until about 1980.

at least the first half of 1972. Supporting this trend are expectations of record levels for new housing starts, possibly reaching 235,000 units during the year. While residential construction currently uses only small amounts of steel, the completed homes create an increased demand for consumer goods and hence for flat-rolled steels.

There are indications of some improvement in a generally depressed non-residential construction market during the second half of 1972. Dofasco's sales of prepainted industrial siding to this market have increased significantly over the past two years. A second paint line is currently being installed at the jointly-owned Baycoat plant to meet the growing demand for prepainted steels.

Automotive markets should remain strong, provided there are no major changes in the Canada/United States auto agreement. Currency realignments appear to have improved the competitive position of North American auto producers and further improvements in automotive sales are expected during 1972.

After a three-year decline, farm machinery sales in 1971 steadily improved. In the period from January to October of 1971, agricultural equipment sales were up 16% over the previous year. This trend is expected to continue in 1972.

Tin plate has shown modest growth which should continue through 1972. This is expected provided actual consumption is not reduced through possible government anti-litter legislation. The soft drink industry, a substantial market for Dofasco's tin plate, has been threatened with pressure in several provinces to ban or place a high deposit on beverage cans and non-returnable bottles to reduce littering. Such action has been taken in British Columbia and the program has proven to be a failure as littering continues. Beverage containers represent only about 3% of all solid wastes. We are convinced that the solution to littering is education and the development of the technology to permit the effective recycling of wastes. We have made our views known to the various governments.

Sales of steel to manufacturers of pipe and tubing should continue to improve. Future prospects, based on increasing energy needs and anticipated continuing discoveries in the Canadian north, look promising.

The outlook for National Steel Car and the steel castings division for this year is uncertain. No substantial new orders for railway cars have been received thus far and it is expected that there will be a slowdown in these operations beginning in the second quarter.

In summary, a projected growth of 5% in Canadian demand for steel in 1972 provides a promising outlook for increased sales. With Dofasco's recent expansion program now complete, the Company is in a strong position to take advantage of increased markets.

"...our product is steel
our strength is people"

DOMINION FOUNDRIES AND STEEL, LIMITED

	Percentage Ownership
SUBSIDIARY*	
National Steel Car Corporation, Limited, Hamilton, Ontario	100.0%

MINING INTERESTS

Adams Mine, Kirkland Lake, Ontario*	100.0%
Sherman Mine, Temagami, Ontario*	90.0%
Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland Arnaud Pellets, Pointe Noire, Quebec	16.4%
Kimberley Ventures, Australia	13.3%
Itmann Coal Company, West Virginia†	9.0%

ASSOCIATED COMPANIES†

Baycoat Limited, Hamilton, Ontario	50.0%
International Portable Pipe Mills Ltd., Alberta	26.0%
Arnaud Railway Company, Quebec	16.4%
Knoll Lake Minerals Limited, Newfoundland	9.5%
Northern Airport Limited, Newfoundland	8.2%
Northern Land Company Limited, Newfoundland	8.2%
Twin Falls Power Corporation, Limited, Newfoundland	2.8%
Wabush Lake Railway Company, Limited, Newfoundland	16.4%

TRANSFER AGENTS AND REGISTRARS

National Trust Company, Limited — Toronto, Montreal, Vancouver, Winnipeg, Calgary
Canada Permanent Trust Company — Halifax
The Bank of Nova Scotia Trust Company of New York — New York

*Ownership interest consolidated in Financial Statements

†Included under "Investment in Associated Companies" in Financial Statements

DOFASCO